

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)
	)
Connect America Fund	) WC Docket No. 10-90
	)
ETC Reports and Annual Certifications	) WC Docket No. 14-58
	)
Establishing Just and Reasonable Rates for Local Exchange Carriers	) WC Docket No. 07-135
	)
	)
Developing a Unified Intercarrier Compensation Regime	) CC Docket No. 01-92
	)

**REPLY COMMENTS  
OF  
SHAWNEE TELEPHONE COMPANY  
AND  
MOULTRIE INDEPENDENT TELEPHONE COMPANY**

Shawnee Telephone Company and Moultrie Independent Telephone Company, (collectively “Shawnee”) hereby submit their reply comments with respect to the *Notice of Proposed Rulemaking* (“*NPRM*”) portion of the Commission’s *Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking*, FCC 18-29, released March 23, 2018, (“*NPRM*”) in the captioned proceedings. These reply comments are filed in accordance with the schedule established in 83 FR 17968.

In the *NPRM*, the Commission proposes to extend a new offer of “glide path” Alternative Connect America Cost Model (“ACAM”) support to rural local exchange carriers (“RLECs”) willing to accept specific and predictable model-based support that is less than their current cost-based high-cost support.<sup>1</sup> The *NPRM* would include in this offer RLECs like Shawnee who had previously been excluded from eligibility to participate in ACAM because they had deployed

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<sup>1</sup> NPRM at ¶117

“too much” fiber-to-the premises (“FTTP”) facilities and/or intermediate 10 Mbps downstream/1 Mbps upstream<sup>2</sup> broadband service to their rural customers.<sup>3</sup>

Shawnee urges the Commission to adopt this second ACAM glide path offer, and to make it available to ALL cost-based RLECs willing to accept the trade-off of more specific and predictable high-cost support in return for a somewhat reduced amount of such support. Moreover, because WTA and others have correctly observed that glide path participation directly reduces pressures on the Rate-of-Return (“RoR”) high-cost support budget by reducing the amount of support electing carriers receive,<sup>4</sup> Shawnee further urges the Commission to design its second ACAM glide path offer to encourage participation by as many RLECs as possible, and in turn, to increase the amount of support made available to other carriers. Specifically, whereas a funding cap of \$200 per location is likely to encourage somewhat more glide path participation than a \$146.10 funding cap, a variable funding cap that would limit reductions in previous cost-based support would constitute the most effective way to attract a substantial number of new glide path participants. Shawnee agrees that a variable cap which limits each participant’s support reduction to 5% would be the approach most likely to maximize the number of ACAM glide path participants.<sup>5</sup> Shawnee emphasizes that each additional ACAM glide path participant reduces the amount of money needed to “fully fund” the RoR high-cost mechanisms and relieves pressure on the overall budget.

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<sup>2</sup> “Mbps” stands for Megabits per second. The Commission considered deployment of 10/1 broadband service to 90 percent or more of the locations in its study area as “too much” broadband service to allow an RLEC to be eligible to make the initial 2016 election to receive ACAM support.

<sup>3</sup> NPRM at ¶121.

<sup>4</sup> WTA Comments at p. 15.

<sup>5</sup> Id.

## I. Background - Shawnee

Shawnee provides broadband and voice services to approximately 3,500 customers in southeastern and central Illinois, including geographically-challenging and difficult-to-serve areas like the rocky terrain of the Shawnee National Forest. Consistent with the goals and objectives of the President, Congress, and this Commission to expand the availability of broadband service, Shawnee believes that advanced broadband services are critical to revitalizing these economically-depressed former coal mining and remote national forest areas. In fact, Shawnee believed in this mission enough to secure \$35 million in Rural Utilities Service (“RUS”) loans to upgrade its customers to an advanced broadband-capable network throughout an area where Shawnee is likely the only broadband option for its customers during the foreseeable future. This is what Shawnee calls its “Southern Illinois Sustainable Broadband Transformation Project.”

In 2016, Shawnee completed its acquisition of Moultrie Independent Telephone Company (“MITC”).<sup>6</sup> MITC was a single rural exchange (Lovington) provider in central Illinois, offering 10/1 broadband to its customers. Since this acquisition, Shawnee has secured an RUS loan for \$4 million and is working to upgrade its Lovington community customers to FTTP. The newly-combined companies service nearly 700 square miles with a subscriber density of less than 5 customers per mile in some of the lowest per capita income areas in the state.

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<sup>6</sup> See Press Release, “Shawnee Communications Completes Acquisition of Moultrie Multicorp (June 21, 2016), *available at*: [http://www.il-ita.com/files/9414/6662/7206/Shawnee\\_Press\\_Release.pdf](http://www.il-ita.com/files/9414/6662/7206/Shawnee_Press_Release.pdf); Public Notice, WC Docket No. 16-95, “Notice of Domestic Section 214 Authorizations Granted,” DA 16-495 (rel. May 5, 2016). It is not clear how the Commission intends to apply its decision to require rate-of-return carriers to make a state-level election of model-based support, *CAF Rate-of-Return Order* at ¶ 65, in the case of two carriers that became affiliates after the adoption of the *CAF Rate-of-Return Order* but before offers of model-based support have been made.

## **II. Shawnee’s Opinion – Glide Path Offers Specific and Predictable Support**

Shawnee agrees that options which furnish “specific” and “predictable” support provide benefits to RLECs, their customers, and their lenders.<sup>7</sup> The contemplated second ACAM glide path offer would result in a known and predictable revenue stream for Shawnee and other electing RLECs during the period from 2018 to 2026. This will allow companies like Shawnee to better manage their operations, debt service, and capital improvement (broadband expansion) plans in exchange for a commitment on the part of electing RLECs to expand broadband availability in their serving areas. Shawnee is working to fulfill the goals laid out by Congress and the Administration to provide advanced broadband-capable networks to rural customers, most of whom are demanding greater bandwidth at faster speeds, while at reasonable prices. Given that since 2011, 4/1 and 10/1 broadband speeds have been largely superseded while the current 25/3 standard looks more and more like an intermediate step with a limited shelf life, customer broadband needs continue to grow, which requires significant investments, including financial risk in the form of RUS and private loans. A more predictable revenue stream should encourage lenders, such as RUS, to make further broadband deployment loans to participating RLECs like Shawnee, and should increase their confidence that existing loan covenants will be met, and that underlying loans will be repaid in a timely fashion.

## **III. The Commission’s Illustrative Results May Be Used to Demonstrate the Benefits of the Variable Cap Approach**

On May 10<sup>th</sup>, 2018, the Commission published a set of illustrative ACAM results to assist carriers in evaluating the proposed new offer. These data may be used to illustrate the benefits of

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<sup>7</sup> Section 254(b)(5) of the Communications Act, as amended (the “Act”), requires that USF mechanisms be “specific, predictable and sufficient.”

the variable cap approach relative to a fixed \$146.10 (Report 12.3) or \$200 (Report 13.3) support cap. In Shawnee’s case, the per-location cap of \$146.10 would result in a loss of 41.6% of its 2017 support.<sup>8</sup> A \$200 cap results in a loss of 27.65%. Shawnee, its shareholders, and its creditors (USDA RUS) place a high value on predictable revenue streams, but a 27.65% reduction would be extremely disruptive and difficult to accept. However, if the Commission were to design the “glide path” to focus upon the “amount of support loss” rather than “per location funding caps” as explored in paragraph 122 of the *NPRM*, Shawnee and other RLECs would be much more likely to accept a new ACAM glide path offer. The ability under this scenario to generate savings to the overall USF and RoR budget, while providing a predictable support level for Shawnee and other RLECs, is the best option for continuing to provide advanced broadband-capable networks to customers into the near future.

To further illustrate the impact of the “glide path alternatives” on Shawnee and others, the table below shows the financial impact on Shawnee, along with its likelihood of acceptance. While the \$146.10 support cap would free the highest amount of legacy support returned to the Fund, Shawnee could not voluntarily accept a 41.6% reduction in its high-cost support. The columns on the right side of the table below illustrate the conclusion that the more support Shawnee would forgo under a new model offer scenario, the lower the likelihood that it could accept a glide path offer.

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<sup>8</sup> Includes results for both Shawnee and Moultrie

<b>Shawnee Specific Glide Path Alternatives Evaluation</b>			
<b>Report</b>	<b>Cap</b>	<b>% Decrease under Glide Path Offer</b>	<b>Probability of Shawnee New Offer Acceptance</b>
12.3	\$ 146.10	41.60%	<b>NONE</b>
13.3	\$ 200.00	27.65%	Very Unlikely
Var Cap -loss limit	15%	15.00%	Unlikely
Var Cap -loss limit	10%	10.00%	Possible
Var Cap -loss limit	5%	5.00%	Virtually Certain

Based on the Commission’s recent illustrative results in Report 13.3, over 80% of the holding companies eligible to opt into the glide path would receive at least a 25% reduction in model-based support compared to the 2017 legacy claims – even at a \$200 support cap. Given the hardships and disruptions recently suffered by RLECs due to 12-13% budget control mechanism “haircuts,” reductions of this magnitude mean that few carriers could accept the offer.

Shawnee’s own deliberations help illustrate this point. While the \$146.10 support cap would result in the largest amount of additional RoR budget “head room” if the offer was accepted, Shawnee could not voluntarily accept a 41.6% reduction in support. The same holds true with a \$200 cap, a reduction of 27.65% being extremely difficult for the Company to absorb. Under the variable caps that limit the amount of an RLEC’s loss of support, the calculus for Shawnee changes. Shawnee would consider a glide path offer that would limit its support reduction to 10% and would likely accept an offer that would limit its support reduction to 5%. Shawnee believes that its analysis and conclusions are very likely to be similar to those of other RLECs. Hence, it believes that a variable funding cap with a loss limitation of 5% would be likely to generate maximum participation for a second ACAM glide path offer, and that this would benefit the entire RoR industry by significantly easing USF budget pressures.

Given the ability under this scenario to generate savings to the overall Fund, while providing predictable support levels for Shawnee and other RLECs, the variable cap represents the best option for continuing to provide advanced broadband-capable networks to greatest number of customers going forward. Shawnee suspects that other carriers would come to similar conclusions.

#### **IV. Conclusion**

In an era of increasing demands on the overall USF budget, the contemplated new ACAM glide path offer presents a refreshing opportunity to encourage predictable broadband deployment while reducing overall budget pressures. Based on comments received by the Commission in this matter, it is clear that a second ACAM glide path offer, which eliminates the support eligibility restrictions of the 90% and FTTP rules, has no disadvantages and has clear industry support. The variable funding cap approach with reasonable limitations on support reductions presents the greatest probability of carrier participation that will enhance the predictability of high-cost support revenue flows, encourage RLECs and investors to deploy needed broadband upgrades, and ease overall USF budgetary problems.

Respectfully submitted,  
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